

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 IGA-02 OMB-01 TRSE-00 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03

RSC-01 PRS-01 SS-15 USIA-15 EB-11 COME-00 STR-08

RSR-01 /126 W

----- 063022

R 271300Z AUG 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 2758

C O N F I D E N T I A L PHNOM PENH 8998

FOR STATE/AID

E.O. 11652: GDS

TAGS: EAID, EFIN, CB

SUBJECT: ECONOMIC POLICY MEASURES

1. SINCE REFTTEL DESPATCHED, SEVERAL ADDITIONAL SESSIONS HAVE BEEN HELD WITH GKR ECON MINISTER. THE LAST BUDGET DISCUSSIONS WERE HELD ON AUG 23 . SUPPLEMENTAL BUDGET WAS APPROVED BY COUNCIL OF MINISTERS ON AUG 24 AT A TOTAL OF 13.8 BILLION RIELS, OR TWO BILLION LESS THAN HAD BEEN TENTATIVELY APPROVED BY THEM THE PREVIOUS WEEK.

2. IN ADDITION TO MEASURES ON REVENUES AND REDUCTION OF SUBSIDIES, GKR HAS AGREED TO INCREASE THE CIGARETTE TAX BY 60PERCENT, WHICH MAY RAISE AN EXTRA 700 MILLION. MINISTERS ALSO AGREED TO ELIMINATE CUSTOMS EXEMPTIONS FOR TIME BEING. ALSO WILL FREE MIL PRICES AND ELIMINATE MILK SUBSIDY. IN ADDITION ABREEMENT IN PRINCIPAL WAS STATED (AGAIN) THAT RICE PRICES SHOULD NOT BE SUBSIDIZED. ALSO AGREED THAT POL PRICES SHOULD BE RAISED AGAIN.

3. AS BUDGET NOW STANDS, TOTAL BUDGET EXPENDITURE LEVEL WILL BE 48.5 BILLION RIELS. REVENUES ARE SCHEDULED AT 32.7 BILLION,
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OF WHICH 12.6 BILLION ARE GKR REVENUES AND 20.1 BILLION COUNTER-

PART. THE UNCOVERED DEFICIT OR INFLATIONARY BORROWING FROM THE BNC WOULD BE 15.8 BILLION. ACCORDING TO OUR MONETARY CALCULATIONS THIS WILL MEAN A MONEY SUPPLY INCREASE OF ABOUT 35PERCENT WHICH IS SOMEWHAT LESS THAN LAST YEAR. SEPTTEL WILL PROVIDE TABULAR SUMMARY OF SUPPLEMENTAL BUDGET AND ITS MONETARY IMPACT.

4. MONETARY CONSEQUENCES OF BUDGET WERE SPELLED OUT FOR ECON MINISTERS. IN SEPARATE PRIVATE MEETING WITH GOVERNOR NR BNC ON AUG 2;

FULL MONETARY IMPLICATIONS WERE COVERED, AND WE PROVIDED OUR ANALYSIS AND CONCLUSIONS. WE STRESSED THAT WE NOW CONSIDERED IT IMPERATIVE, IN WAKE OF BUDGET SUPPLEMENT APPROVED, THAT FX RATE AGAIN START TO MOVE, AT LEAST TO 250 ON THE AUG 27 TRADING DAY, AND INDEED THAT IT SHOULD MOVE HIGHER. ON AUG 27 THE RATE WAS MOVED TO 250, AND CIP DIFFERENTIAL REDUCED TO 20 PERCENT.

5. IMF RES REP WOULD RATHER WE DID NOT HAVE DIRECT DISCUSSIONS WITH GOVERNOR NR BCN ON FX RATE. HOWEVER, WE DID NOT FEEL CONFIDENT THAT RATE WOULD MOVE WITHOUT OUR INTERVENTION.

6. WE SHALL CONTINUE TO PRESS ON FX RMTDFIN ORDER TO PREVENT IT FROM GETTING STUCK AGAIN, AND ALSO TO SEE THAT IT ACHIEVES AND THEN KEEPS A REALISTIC LEVEL IN THE PRESENT HYPER-INFLATIONARY SITUATION. WE SHALL ALSO CONTINUE TO PRESS ON INCREASING REVENUES. THERE ARE A VARIETY OF MINOR TAXES WHOSE INCREASE COULD YIELD A SIGNIFICANT AMOUNT. UTILITY RATE POLICY WILL ALSO BE STRESSED SO THAT UTILITIES DO NOT BECOME A DRAIN ON THE BUDGET AGAIN, BUT ARE ACTUALLY A REVENUE SOURCE. HIGHER GASOLINE PRICES WILL BE ONE OF OUR PRIME TARGETS. (WE THINK GASOLINE SHOULD SELL FOR NOT LESS THAN THE EQUIVALENT OF 80 U.S. CENTS PER GALLON). WE HOPE TO SEE PROGRESS ON INCREASES IN INTEREST RATES, AND OF COURSE REALISTIC RICE PRICING IS OUR CONTINUING AND CARDINAL CONCERN.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 27 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PHNOM08998
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS SWANK
Errors: N/A
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730813/aaaaajka.tel
Line Count: 96
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by shawdg>; APPROVED <03-Jan-2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC POLICY MEASURES
TAGS: EAID, EFIN, CB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005